HM Customs
& Excise



CUSTOMS MATTERS

getting it right from the start
keeping records and accounts

Modernising government

BCC
THE BRITISH CHAMBERS OF COMMERCE

INTRODUCTION - TAKING YOUR FIRST STEPS

If you're self-employed, have you registered with the Inland Revenue?

Should you register for VAT?

Have you an accountant or financial advisor?

Do you know where to find your local British Chamber of Commerce?

Customs matters. We want to help you get off to the right start in your business, by offering practical advice and support to guide you through the complexities of dealing with HM Customs & Excise.

This leaflet will help you understand some of the things you need to know about our procedures across our taxes and duties - concentrating on VAT - to help you make sensible and appropriate business decisions. We will tell you where and how you can get the best advice from our advisors and business support teams, as well as where else you might go for expertise and guidance.

DO YOU WANT TO KNOW HOW TO:

- make an informed decision about registering for VAT
- fill in your VAT Return and know what records & accounts you need to keep
- better deal with regulations that HM Customs & Excise and Inland Revenue administer
- cut the burdens of compliance by knowing how to make the most of special schemes set up for your benefit
- get up-to-date technical information to enable you to pay on time what you should pay.

WE CAN TELL YOU ABOUT:

- VAT
- Customs (including procedures to facilitate International Trade, such as:
    - Inward Processing Relief
    - Outward Processing Relief
    - Customs Warehousing)
- Excise duties (including Mineral Oils, Alcohol & Tobacco)
- Intrastat
- the other taxes we are responsible for:
    - Insurance Premium Tax
    - Air Passenger Duty
    - Landfill Tax
    - Climate Change Levy

WHAT IS VAT?

Did you know?

VAT was first introduced on 1 April 1973 with a standard rate of 10%, replacing purchase tax and selective employment tax. Over the next 25 years £550 billion in revenue was collected.

VAT stands for "Value Added Tax" and is a tax that businesses charge when they supply their goods and services in the United Kingdom (UK) or Isle of Man. It is also charged on goods, and some services, that are imported from places outside the European Community (EC) and on acquisitions, and some services, received from the EC.



WHAT ARE "TAXABLE SUPPLIES" AND THE DIFFERENT RATES OF VAT?

The VAT guide - tells you more about what you should and shouldn't charge VAT on (Notice 700).

All goods and services which are VAT rated are called "taxable supplies". You must charge VAT on your taxable supplies from the date you first need to be registered. The value of these supplies is called your "taxable turnover".

There are currently three rates of VAT:

- 17.5% - known as standard rated supplies: on most goods and services.
- 5% - known as reduced rate supplies: on fuel and power used in the home and by charities.
- 0% - known as zero rated supplies, which you do not need to charge VAT on. Some examples are: most food, books, newspapers and young children's clothing.

There are also "exempt supplies" which are business supplies which have no VAT charges on them at either the standard or zero rate. Exempt supplies do not form part of your taxable turnover. Some examples are: insurance, selling, leasing and letting of land and buildings (not garages, parking spaces, hotel or holiday accommodation) and certain education and training.



HOW DOES VAT WORK?

Who has to be registered?
Your VAT registration covers all parts of your business.

You can register as a
- sole proprietor
- partnership
- limited company
- club or association
- charity

What is VAT? Do I have to register? - a leaflet for anyone who has recently set up their own business (Leaflet M/L/019)

If you are in business and your "taxable turnover", not just your profit, goes above a certain limit you become a "taxable person". **You must then register for VAT.**

Taxable turnover is the total value of all your business supplies which are taxed at either the standard, reduced or zero rate.

The registration threshold was raised to £54,000 in the 2001 Budget. You can opt to register for VAT if your taxable turnover is less than this, if what you do counts as a business for VAT purposes.

YOU MUST REGISTER FOR VAT IF;

a) at the end of any month the total value of the taxable supplies you have made in the past 12 months or less is more than £54,000; or

b) at any time you expect that the value of your taxable supplies will be more than £54,000 in the next 30 days alone.

To register for VAT, you need to complete form VAT 1 and send it to us within 30 days of either of the above occurring.

Should I be registered for VAT? - explains in more detail who should register for VAT and shows how to fill in form VAT 1 (Notice 700/1)

If you only supply goods which are zero rated (but exceed the registration threshold) you may not have to register for VAT, but you do have to notify us of your liability to be registered and apply to be **"exempt from registration".**

If you acquire goods from other countries in the European Community you may need to be registered.

To register you should phone the National Advice Service on **0845 010 9000**.
Our advisors will assist you and can send you a registration form.

If your taxable turnover is below the registration threshold you can apply for **"voluntary registration",** if you can prove that what you do is a business for VAT purposes.

There are advantages and disadvantages to this and before you apply you should think carefully about if it will benefit you.

The Ins & Outs of VAT - a simple introduction to output and input tax (Notice 700/15)

Benefits include increased credibility for your business. Also if your business makes standard or zero rated supplies you may be able to claim back input tax.
On the other hand, once you are registered you will have to account for output tax on all your taxable supplies which are not zero rated, though you will also be able to take credit for any input tax incurred in making those supplies.

When you are registered for VAT you must charge and account for VAT whenever you make standard or reduced rate supplies. These supplies are outputs and the tax you charge is your output tax.

If your customers are registered for VAT and the supplies are for their business, the supplies are their inputs and the tax you charge them is their input tax. In the same way, the VAT charged by suppliers to you on your business purchases is your input tax.

You take your input tax from your output tax and pay what's left to Customs & Excise on your VAT Return. If your input tax is greater than your output tax you can claim back the difference from us.

If you have any VAT questions, ask your accountant or contact the National Advice Service by phoning **0845 010 9000**

To speak to someone in Welsh please call **0845 010 0300**

RECORD KEEPING AND ACCOUNTS

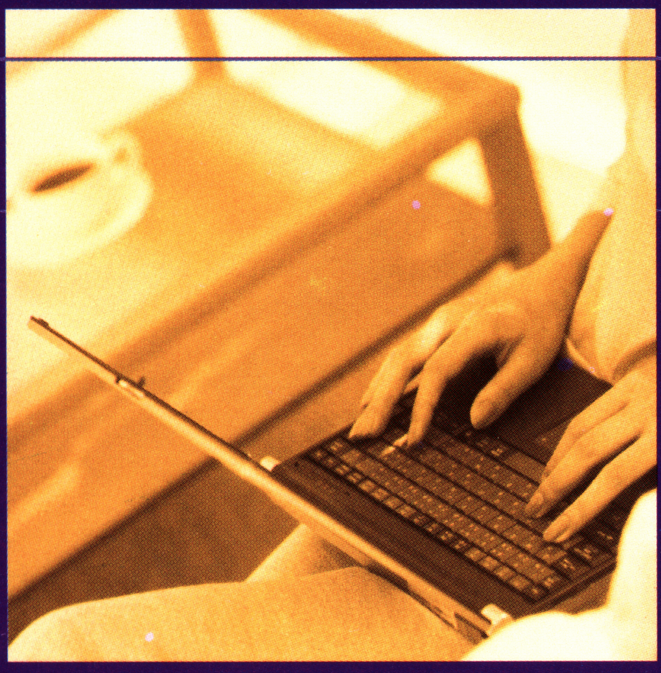
Did you know?

The normal records kept by any business can easily be adapted for VAT purposes. You can keep these records manually or on a computer. Remember to keep them up to date and in a way that suits your business best. This will help you to calculate your VAT.

WHY DO I HAVE TO KEEP RECORDS?

The law says that if you are registered for VAT you must keep records of all the supplies you make and receive and produce a summary of VAT for each tax period covered by your tax returns. The summary is called a "VAT account".

You must keep all your business records for six years. If this causes you difficulty, you may be allowed to keep some of your records for a shorter period.



WHAT RECORDS DO I HAVE TO KEEP?

Did you know?

The Inland Revenue's guide 'Starting up in business - cutting through the red tape' provides more information to help fill in the tax return or claim.

You'll find your local Inland revenue Enquiry Centre & Tax Office listed in the phone book under 'Inland Revenue' or on the website **www.inlandrevenue.gov.uk**

For VAT purposes "business records" include:

- annual accounts, including profit and loss accounts;
- bank statements and paying-in slips;
- cash books and other account books;
- credit or debit notes you issue or receive;
- documentation relating to dispatches/acquisitions of goods to/from EC Member States;
- documents or certificates supporting special VAT treatment, such as relief on supplies to visiting forces or zero-rating by certificate;
- import and export documents;
- orders and delivery notes;
- purchase and sales books;
- purchase invoices and copy sales invoices;
- records of daily takings, such as till rolls;
- relevant business correspondence;
- your VAT account.

WHY DO I NEED TO KEEP ON TOP OF THINGS?

Keeping Records & Accounts - explains what records you will need to keep (Notice 700/21)

How to correct errors and make adjustments - (Notice 700/45)

It makes sound business sense.

There are lots of advantages to keeping good records, and it needn't be time consuming or onerous to you or your business. Start with a proper system and make sure you update the information on a regular basis.

- You don't want to pay more than you need to.
- You could end up paying more tax or VAT than necessary if you don't keep proper records.
- You are in control.

Staying on top of your accounts and record keeping can free up valuable time to spend on the things that matter to you.

REGISTERING WITH THE INLAND REVENUE

If you are starting to work for yourself you must register with the Inland Revenue as self-employed, even if you already send in a tax return.

You can register by calling the Helpline for the Newly Self-Employed on **08459 15 45 15** or by completing the form in leaflet P/SE/1 available from your local Inland Revenue office.

For general enquiries about being self-employed, call the Helpline on **08459 15 45 15** or go to the website at **www.inlandrevenue.gov.uk/startingup**

To speak to someone in Welsh call **08457 660 830**.

VAT RETURNS

Filling in your VAT Return - helpful hints on completing your VAT Return (Notice 700/12)

Once you have registered for VAT you will have to complete VAT returns promptly and pay any tax due on time.

VAT returns are completed using form VAT 100 which will be sent to you automatically. Alternatively, you can send your return via the Internet. Further information is available on our website **www.hmce.gov.uk**

If you pay late or submit a late return it may lead to financial surcharges and penalties.

If you have any problems with completing your return on time please contact the National Advice Service as soon as possible.



SCHEMES

We have a number of schemes that have been designed to help both new and growing businesses.
You may find one of the following schemes beneficial to your business.

Cash Accounting Scheme - (Notice 731)

Annual Accounting Scheme - (Notice 732)

Retail Schemes - (Notice 727)

- Cash Accounting
- Annual Accounting
- Bad Debt relief

One of our National Advice Service advisors will be happy to discuss with you how the schemes operate.

CASH ACCOUNTING

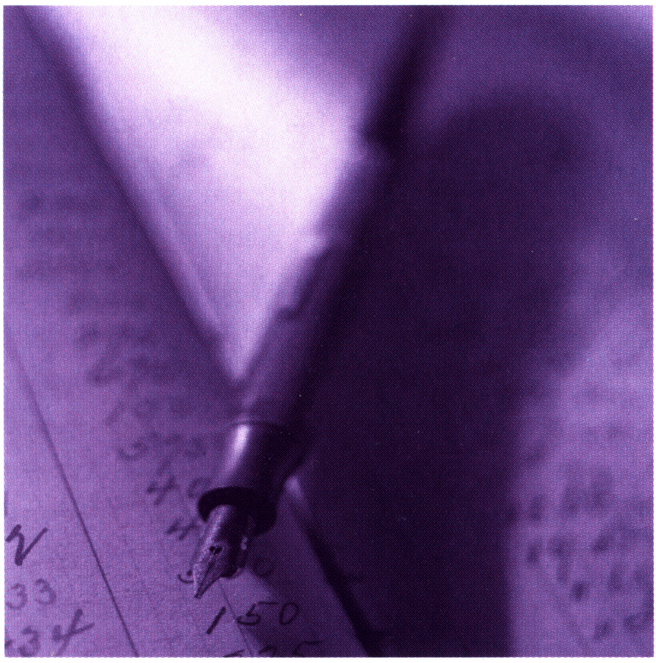
If your turnover is less than £600,000 per year you can account for your output tax and input tax at the time you receive or make payments.

The advantages of this are;

- Your output tax will only be accounted for on sales where you have received payment;
- Your VAT return payments will closely follow your cashflow from sales and purchases you have made; and
- It may be beneficial for you to use this scheme if you pay for your supplies promptly but your customers take time to pay.

The disadvantages are;

- You can only claim back your input tax when you have actually paid for the goods or services; and
- Your records will need to show accurately when sales and purchase invoices are paid.



ANNUAL ACCOUNTING

- If your turnover is less than £600,000;
- You have been registered for VAT for at least 12 months; and
- You have completed four quarterly returns;

You can apply to account for VAT annually on one VAT return.

The advantages of this are;

- You only complete one return per year and this can be timed to coincide with your year end;
- There is less chance of incurring surcharges or penalties because you are only completing one return instead of four per year; and
- You can make payments throughout the year and avoid a large payment when the return is due. If your business experiences seasonal peaks and troughs this can be beneficial as it lets you budget over a 12 month period.

The disadvantages are;

- If your business changes or your turnover increases or decreases you may find you are making incorrect payments. You could be faced with a large payment at the end of the year if your turnover has increased.
- You still need to keep your accounts and records up to date.

BAD DEBT RELIEF

If you are not using the cash accounting scheme and you have a customer who is unable or unwilling to pay for goods or services you have supplied, you still have to account for VAT on the sales invoice. However, once six months have elapsed from the date the payment was due and you have written the bad debt off in your accounts, you can claim back the output tax you originally declared. In addition, you need to write to your customer to explain that you are claiming back the output tax declared on the original invoice, so therefore your customer cannot claim the invoice as input tax.

There are other schemes specifically for retailers and those dealing in second-hand goods.

For further information on how any of the schemes operate, phone the National Advice Service on **0845 010 9000**.

IMPORTS AND EXPORTS

IMPORTS

If you are buying goods from outside the European Community VAT and duty are usually charged at the point of entry to the United Kingdom. However, there may be circumstances when you could apply for a relief of duty and VAT. Even if duty and VAT are payable you may be able to defer payment.

EXPORTS

If you are selling goods in countries outside the European Community you may not have to charge VAT if you have evidence that the goods have left the United Kingdom.

We want to assist businesses who import and export and we offer a support programme to improve your awareness of customs procedures and requirements. We may be able to help you to;

- Improve your day to day cash flow; and
- Improve trading competitiveness at home and abroad.

Did you know?

King Aethelbald of Mercia made the first known reference to import duty in the UK, when in 743 AD he granted Worcester abbey the duty from two ships to curry favour 'with the Lord.'

'Quindecima' was the duty on 1/15th of imports and exports imposed by King John in 1203.

Excise duty was first levied in 1643 to pay for Cromwell's army.

BUYING AND SELLING IN THE EUROPEAN COMMUNITY

Did you know?

We have a leaflet "Getting Started in Imports & Exports" which gives useful information and contacts.

To obtain a copy or to arrange an appointment with a Business Support team please phone the National Advice Service on **0845 010 9000.**

Selling in the European Community

When you sell goods in the European Community (EC), known as supplies, you do not have to charge VAT if;

- your customer is registered for VAT in another EC member state;
- you have your customers VAT registration number; and
- you hold commercial documentation to show that the goods have moved from the United Kingdom to another EC member state.

When you complete a VAT return that shows EC sales you will be sent an EC Sales list to complete.

Buying in the European Community

When you buy goods in the EC, known as acquisitions, your supplier will not charge VAT if you can provide;

- your VAT registration number; and
- documentation to show that the goods have left the EC member state.

There are specific rules if you acquire or supply services in another EC member state.

INTRASTAT

Did you know?

Why do we need Trade Statistics ?

Trade statistics record the value and quantity of trade imported and exported by the UK. The information forms part of the monthly balance of payments which is produced by the Office for National Statistics (ONS). This is one of the main economic indicators used by the Treasury for economic forecasting and for formulating economic policy.

Intrastat - a general guide (Notice 60)

When the value of your supplies or acquisitions within the European Community reaches the Intrastat threshold, currently £233,000 per calendar year, you will have to complete supplementary declarations known as Intrastat. These supplementary declarations provide trade statistics for goods moving within the European Community.



E-BUSINESS

Did you know?

The majority of data on goods imported from outside the European Community is recorded electronically.

Customs & Excise have long recognised the need to use new technology to ease the flow of information.

There is an e-form to report Intrastat, which is information on goods moving within the European Community. Likewise, VAT returns can be sent via the Internet.

By making the most of the Internet, Customs is continually looking to introduce new ways for businesses to use the web to send and receive information. For more information go to our website **www.hmce.gov.uk**



WHERE CAN I GET MORE INFORMATION?

Contact the Customs & Excise National Advice Service.

From 2 April 2001, if you need general advice from HM Customs & Excise ring our National Advice Service on **0845 010 9000**. The service is available from 8am to 8pm Monday to Friday.

If you would like to speak to someone in Welsh phone **0845 010 0300**. The service is available from 8am to 8pm Monday to Friday.

If you have hearing difficulties please ring the Text phone service on **0845 000 0200**.

All calls are charged at the local rate within the UK. Charges may differ from mobile phones.



BUSINESS SUPPORT TEAMS

Did you know?

All services provided by the Business Support teams are optional and free of charge.

Our advisors can also arrange appointments with a local Business Support team. They are based in local offices and offer specialist advice to:

- people thinking of starting in business;
- businesses new to VAT;
- businesses new to importing or exporting;
- established businesses who may have experienced a change in their business; and
- businesses who have staff who are new to dealing with us.

The support is available either:

- face to face - by appointment
- by telephone
- by local seminar

Phone the National Advice Service to find out more on **0845 010 9000**.

H M CUSTOMS & EXCISE WEBSITE

You can find further information and the majority of our publications on our website. You may even be able to resolve your query on-line by accessing our frequently asked questions page. **www.hmce.gov.uk**.

ARE YOU A SMALL OR MEDIUM SIZED BUSINESS?

Did you know?

The Government's 'Think Small First' initiative is supporting smaller businesses in their efforts to compete more effectively and meet the challenges of a global economy?

There are many Government departments, agencies and support organisations who can help you make the right business decisions.

The Small Business Service (SBS) has been set up specifically to help businesses like yours. SBS operates a number of schemes and initiatives designed to help small business. They encourage businesses to be more innovative and to exploit new technologies, help them to get finance more readily and can provide ways for businesses to measure and improve efficiency. For further information visit their Website at **www.businessadviceonline.org**

The SBS also oversees the work of the network of local Business Link offices that operate throughout England. (Similar services are run by Small Business Gateway in lowland Scotland, Business Information Source in highland Scotland, Business Connect in Wales and the Local Economic Development Unit for Northern Ireland.)

The Business Links provide independent and impartial business advice, information and a range of services to help small firms and those trying to start up new businesses. For further information call **Business Link on 08456 045678**.

The **British Chambers of Commerce (BCC)** is the national face of the UK's network of accredited Chambers of Commerce and campaigns to reduce burdens on business and create a more favourable business environment. For further help you should contact your local chamber, details of which can be found on the BCC's Website at **www.britishchambers.org.uk**

BCC

THE BRITISH CHAMBERS OF COMMERCE

LEAFLETS

Customs & Excise produce a range of leaflets - called Notices - which give more specific help and guidance. You can obtain copies from the National Advice Service or alternatively from **www.hmce.gov.uk/notices**.

Did you know?

We have a **Catalogue of Publications** - (Notice 999) which lists all current publications issued by Customs & Excise.



OUR SERVICE COMMITMENT TO YOU

Inland Revenue and HM Customs & Excise are committed to serving your needs well by:

Acting fairly and impartially. We:

- treat your affairs in strict confidence, within the law
- want you to pay or receive only the right amount due

Communicating effectively with you. We aim to provide:

- clear and simple forms and guidance
- accurate and complete information in a helpful and appropriate way

Providing good quality service. We aim to:

- handle your affairs promptly and accurately
- be accessible in ways that are convenient to you
- keep your costs to the minimum necessary
- take reasonable steps to meet special needs
- be courteous and professional

And finally you might like to know...

We welcome your suggestions in order to improve the services we offer to all businesses.

If you are not satisfied with our decisions you can ask the Adjudicator to examine your case.

The Adjudicator is an impartial referee who will look at both sides of the complaint and will recommend appropriate action if it cannot be resolved. The Adjudicator's recommendations are independent.

Taking responsibility for our service

- we publish our customer service aims and achievements annually.
- if you wish to comment, or make a complaint, we want to hear from you so we can improve our service. We will advise you how to do this.

We can provide better service if you help us by:

- keeping accurate and up-to-date records
- letting us know if your personal or business circumstances change
- giving us correct and complete information when we ask for it
- paying on time what you should pay

Contact:
The Adjudicator's Office
Haymarket house
28 Haymarket
London SW1Y 4SP

Tel: 020 7930 2292
or by e-mail:
adjudicators@gtnet.gov.uk
or visit the website at
www.open.gov.uk/adjoff

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